

EU Financing of Airport Infrastructure in Central and Eastern Europe

This report examines European Union sources of funding (grants and loans) for airport infrastructure projects in Central and Eastern Europe.

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Summary

This report examines European Union sources of funding for airport infrastructure projects in Central and Eastern Europe. From May 2004 the eight Central and East European countries set to join the European Union[1] will be able to benefit from the full range of EU infrastructure funding possibilities including the Structural and Cohesion Funds, and the Interreg and Trans-European Transport Network initiatives. In addition funding possibilities are flowing from EU programs directed at infrastructure improvements in Central and Eastern Europe - principally Phare and ISPA. European Investment Bank (EIB) loans are also used to finance airport related projects either separately or as a complement to the grant programs set out above. The report explains each of those grant programs as well as the work of the EIB and gives specific examples of how these resources have been used to finance airport infrastructure related projects. It is important to note that the European Commission is increasingly of the view that most transport infrastructure funding should be directed towards road, rail and sea networks with less support for commercially viable airports.

Structural Funds

The European Regional Development Fund (ERDF), the largest of the four EU Structural Funds, has been and will remain the major source of finance for transport infrastructure investment. In the previous financing period from 1994-1999 the Structural Funds provided EUR 13.9 billion for investment in transport infrastructure in the poorest regions of Europe - the so-called objective 1 regions: Spain, Portugal, Ireland, Greece, southern Italy, and the former East Germany. However, airports generally received only around 5% of the total allocation for transport with the bulk of funds being targeted towards motorway (56%) and railway (24%) projects. Between 1993 and 1999, only EUR 496 million from the Cohesion Fund were allocated to airport related projects. Examples of ERDF support in this area include:

- Italy: runway upgrades at Bari and Palermo airports were 50% financed by the Structural Funds and 50% by the Italian government; improvements at the airport buildings in Cagliari and Olbia are also planned.

- Ireland: 89% of airport financing came from the Irish government, 10% from the Structural Funds, and 1% from the Cohesion Fund.

- Spain: 70% from Structural Funds, 28% from national sources and 2 % from the European Investment Bank

Steps in decision-making for Structural Funds

The decision to involve EU funds in airport infrastructure development is made by the national and regional authorities, not by the European Commission, except in cases where the total investment cost of the project exceeds EUR 50 million. For projects in this category the European Commission supervises the full project cycle, from design to procurement and implementation.

Each accession country produces a National Development Plan (NDP), which details the economic development needs and proposed strategies and improvements for the country. On the basis of this NDP, each country negotiates a Community Support Framework (CSF) with the EU that contains the broad programs that the European authorities agree to financially support. Each CSF will generate about 20 to 50 of these Operational Programs (OP). Some OPs will be industry sector focused (Hungary/OP for Transport, or Poland/ OP for Infrastructure development), and some OPs will focus on a particular region (Germany/ OP for Mecklenburg-Vorpommern). Each OP will generate between 3 and 25 projects, known as "measures". Those two types of OPs could generate projects such as "improvement of airport infrastructure", or "new airport terminal". The names of the authorities who will manage the EU-funded project in the accession country are mentioned at the bottom of each OP, together with an indication of the financing sources.

Companies interested in following the fund allocation process should establish contact with local transport and finance ministries. The latter generally house the Central Finance and Contracting Units (CFCUs) that manage the Structural and the Cohesion funds nationally. Their contact details can be found in the "Enlargement Address Book" on the European Commission's website.

<http://europa.eu.int/comm/enlargement/docs/index.htm> - key

The Commission's regional policy website contains a database of all OPs and is searchable by country, region or industry sector. Currently, there are no OPs for accession countries, as they are still being negotiated by the national authorities and the European Commission. There are already a couple of "Community Initiatives" which include cross-border strategies for improving inter-regional cooperation. The database is accessible on:

http://www.europa.eu.int/comm/regional_policy/country/prordn/index_en.cfm

Community Initiative: Interreg

The Interreg program for cross-border regional development can also be a source of financing for initiatives taken by groups of member states. Interreg aims at promoting co-operation and integration in remote border regions. This broad definition encompasses various types of projects that although favoring rail, road and sea routes, could also include the development of airport areas. For example in 1999, Interreg supported a six member state study on how to meet the challenge of airport congestion. The European Commission invites member states through calls for proposals to design regional integration projects that involve several European countries. These calls for proposals are published in the Official Journal. For more information on Interreg:

http://www.europa.eu.int/comm/regional_policy/interreg3/index_en.htm

Cohesion Fund

All the accession countries will be eligible for Cohesion Fund financing after they join the EU. 50% of the Cohesion Fund's EUR 18 billion budget for the period 2000-2006 is allocated for transport projects but from 2000-2002 only 5% of the projects funded were related to airport infrastructure. The Cohesion Fund will mainly finance upgrading of large, international airports with sufficient passenger flow and as a general rule will be reluctant to finance the modernization of regional airports in accession countries. As an example, the European Commission recently refused to give ISPA/Cohesion Fund support for the upgrading of two regional airports in Hungary because of insufficient passenger numbers.

The Cohesion Fund is managed entirely by the European Commission unlike the more de-centralized management system in place for the Structural Funds where national and regional authorities choose the projects themselves. Successful member state applications for Cohesion Fund financing usually highlight the European socio-economic benefits of the projects, compliance with the overall development priorities set out by member states and the European Commission, and compatibility with other European policies such as urban and environmental aspects of airport extensions. Examples of Cohesion Fund airports projects include:

- Greece: in 1999, four air traffic control projects were financed.
- Portugal: Madeira's Funchal airport received EUR 160 million, or 5% of Portugal's Cohesion Fund for that year.

For more information on the Cohesion Fund:

http://www.europa.eu.int/comm/regional_policy/funds/procf/cf_en.htm

ISPA

ISPA, or the Instrument for Structural Policy for Pre-Accession, is an EU-funded grant program designed to help candidate countries prepare for joining the EU. Since 2000, it has been the primary source of EU grant finance for airport infrastructure in central Europe (Phare - see below - has also played a role but to a lesser extent). ISPA is equally divided between transportation and environmental projects, although the share of airport infrastructure projects covered by the funding is relatively small.

ISPA has only financed one airport project, which involved a new passenger terminal and related access infrastructure for Sofia airport in Bulgaria. The EUR 50.000 ISPA grant was complemented by an EIB loan of EUR 60,000 and EUR 25.000 from the Bulgarian government.

From January 1st, 2004, all existing ISPA projects, and all new projects that are not yet committed financially for the accession countries, will be transferred to Cohesion Fund. ISPA rules require funding recipients to be European-based but this is not the case for

Cohesion funds. Nevertheless U.S. project developers are encouraged to build partnerships with local companies. For information on the ISPA program: http://www.europa.eu.int/comm/regional_policy/funds/ispa/ispa_en.htm

Phare

The Phare program covers 10 candidate countries of central and Eastern Europe, (Bulgaria, the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia and Romania) plus Cyprus and Malta. Phare focuses on two aspects: administrative capacity building and investment support, which includes the upgrading of major infrastructure. Phare's budget is EUR 1,5 billion per year until 2006. Phare will not be available to those central and eastern European countries joining the EU next year but Bulgaria and Romania should continue to benefit from the program. Phare grants are usually quite small amounts and are often complemented by co-financing from international financial institutions such as the European Bank for Reconstruction and Development, the EIB or the World Bank. Phare projects are chosen by each recipient government, as long as they are in line with the National Program drawn up with the European Commission. Participation in Phare projects is conditional upon the respect of the rule of origin for supplies. Example of Phare funds for airports:

- Estonia: Tallinn airport received a EUR 2.5 million grant, coupled with an EIB loan of EUR 10 million and an EBRD loan of EUR 7.6 million for various works on the apron and passenger terminal building.

Companies who wish to participate in ISPA or Phare funded projects need a legally established office in Europe, and must be considered a European company. Phare and ISPA projects calls for tenders appear on the website of the Europe Aid agency: <http://europa.eu.int/comm/europeaid/cgi/frame12.pl>

Trans-European Networks (TENs)

The European Commission has proposed adapting the guidelines for the Trans-European Network for Transport, called TEN-T, to take account of an enlarged EU. This means that a revised list of "priority projects" including new routes by sea, rail and road to Eastern Europe, which are to cost a total of EUR 220 billion, are going to be declared "of European interest". In practice this will mean that they are likely to attract more funding, mobilize new investment in research, development and innovation and turn projects into reality faster. TEN-T projects are partly financed from the budget of the Cohesion Fund.

However most TEN-T projects focus on railway or road corridors linking Western and Eastern Europe, and the creation of cargo shipping lines. Only one priority project in the list of the high-level Group on TENs concerns airports: the future Lisbon airport, which has been under discussion for a long time, but is now scheduled to be completed by 2015.

The European Commission argues that the financing of airport infrastructure should be financed for the most part by the private sector, and aims at excluding TEN-T funds from future airport infrastructure financing plans. TEN-T could in principle finance "indirect" airport projects, such as developing rail or road connections between airports and city

networks (for studies reaching a minimum of EUR 2 million); projects that involve cross-frontier connections; and security upgrade or environmental impact assessments for new infrastructure.

In 1996, the TINA (Transport Infrastructure Needs Assessment) study was launched to co-ordinate the development of an integrated transport network in the 11 EU applicant countries. Please note that the Tina website of the European Commission presents outdated information, and the new TINA website is under construction:

http://www.europa.eu.int/comm/ten/transport/external_dimension/index_en.htm

<http://www.tina.wien.at/>

For more information on the TEN-T,

http://www.europa.eu.int/comm/ten/transport/revision/financing_en.htm

The European Investment Bank (EIB)

The EIB, with its headquarters in Luxembourg, is the EU's long-term project financing arm. Its shareholders are the 15 EU Member States and its Board of Governors is composed of EU Finance Ministers. With a lending volume of EUR 39.4 billion in 2002, the EIB was the world's leading multilateral financial institution. Inside the EU, the EIB's remit is to support EU priority objectives including trans-European transport networks. In 2002, the EIB lent EURO 33.4 billion euro in EU member states or approximately 84% of its total lending portfolio, and EURO 3.6 billion to EU applicant countries of Central and Eastern Europe. The Bank's lending to the accession countries is governed by mandates from the EU, accompanied by a guaranteeing mechanism, and by the Bank's own Pre-Accession Facilities. In 2002, the EIB was the foremost non-governmental borrower of accession country currencies.

EIB loans for airports projects in accession countries

The EIB is the largest source of debt finance for airport infrastructure investments in Central Europe. Large projects with total investment above EUR 25 million can be financed either directly through loans granted to project promoters, or indirectly through a government or banking intermediary. Small and medium-sized projects with a total investment of less than EUR 25 million are financed through global loans (credit lines) to selected banks in the accession countries. The partner banks of the EIB on-lend the funds mainly to SMEs and municipalities. As a complementary source of funds, the EIB can provide up to 50% of the cost of a project, in conjunction with other sources of long-term finance including other credit institutions (public and private), International Financial Institutions and the European Commission's regional policy department. The long term of loans, usually 12 to 15 years and the bank's expertise in project finance make EIB loans an attractive option.

The EIB is also financing investments in the TENs: it has committed EUR 50 billion in loans up to 2010. The main EIB criteria for investment in the TENs is that projects must meet the strategic policy objectives of the EU and of the current and future Member States, and meet the environmental standards required by the EU. The EIB will typically

finance fixed assets components in construction infrastructure rather than services. For more information on the EIB: <http://www.eib.org/>

Examples of airport projects funded by EIB loans:

- Greece: Athens International Airport has been 85% financed by the EIB with the remaining 15% coming from the private sector, in the framework of a PPP. This airport was one of the 14 TEN priority projects selected in 1994.

- Portugal: 100% of the financing for airports came from the EIB during the 1994-1999 financing period.

Loans recently signed by the EIB include:

- EUR 48 million for 3 airports in the Former Yugoslav Republic: Belgrade International, Podgorica and Tivat for modernization, extension, and improved security (08/2003);

- EUR 292 million loan to the state owned Czech Prague airport Authority for the construction of a new passenger terminal (04/2003)

- EUR 200 million for the construction of a second airport terminal at Warsaw International airport

- EUR 100 million for the Cypriot Ministry of Communication and Works for the construction of a new airport terminal and associated facilities (12/2002)

- EUR 100 million to Malev, Hungary's national airline company, for airline operations - which include the purchase of 10 jet aircraft (09/2002);

- various loans of EUR 10 to 15 million for airports infrastructure upgrades, extensions of runways and modernization of air traffic control systems in Estonia (Tallin), Latvia (Riga), Lithuania (Vilnius), Slovakia, Romania.

For more information

Please contact Isabelle.Maelcamp@mail.doc.gov if you require any further information on how to access EU funds and EIB loans. The United States Mission to the EU website also has a section on EU grants and loans: www.buyusa.gov/europeanunion

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You can locate your nearest U.S. Export Assistance Center, as well as Commercial Service offices throughout Europe by visiting www.buyusa.gov and www.buusa.gov/europe.

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[1] Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia,

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